State of Rhode Island

Revenue Estimating Conference

Room 117, STATE HOUSE, PROVIDENCE, RI 02903

STEPHEN H. WHITNEY
Senate Fiscal Advisor
May 2022 Conference Chair

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MEMORANDUM

To:	The Honorable Dominick J. Ruggerio, President of the Senate The Honorable K. Joseph Shekarchi, Speaker of the House The Honorable Daniel J. McKee, Governor
From:	Stephen Whitney, Senate Fiscal Advisor Sharon Reynolds Ferland, House Fiscal Advisor Joseph Codega Jr., State Budget Officer
Date:	May 18, 2022
Subject:	**May 2022 Revenue Estimating Conference**

SUMMARY

The Revenue Estimating Conference met on April 29th, May 4th, and May 9th, 2022, in open public meetings. The Conference adopted the economic forecast for both calendar and fiscal years through 2027, and issued revised revenue estimates for FY 2022 and FY 2023. Based on collection trends through April and the revised economic forecast, the Conference increased the FY 2022 estimate by $386.7 million from the November estimate of $4,684.3 million, to $5,071.0 million.

The Conference estimated FY 2023 revenues at $4,776.2 million, which is $193.0 million more than the November estimate and $294.8 million less than the FY 2022 revised estimate. However, the FY 2023 estimate excludes the $170.2 million hospital licensing fee, which cannot be included because it is enacted annually and revenue estimates may only be based upon current law. This fee is generally renewed on a year-to-year basis and has been extended each year since its inception.

Tables showing the estimates and the changes by revenue component are included at the end of this report.

May 2022 CRE		FY2021		FY2022 Estimate	FY2022 v. FY2021		FY2023 Estimate	FY2023 v. FY2022
Personal Income Tax	$	1,615,512,279	$	1,940,800,000	20.1%	$	1,827,100,000	-5.9%
General Business Taxes								
Business Corporations		201,788,847		255,100,000	26.4%		214,900,000	-15.8%
Public Utilities Gross		93,474,936		89,400,000	-4.4%		90,900,000	1.7%
Financial Institutions		34,856,030		35,700,000	2.4%		31,100,000	-12.9%
Insurance Companies		131,446,789		155,600,000	18.4%		157,000,000	0.9%
Bank Deposits		3,818,574		4,200,000	10.0%		4,200,000	0.0%
Health Care Provider		35,121,483		36,800,000	4.8%		38,000,000	3.3%
Sales and Use Taxes								
Sales and Use		1,341,472,228		1,475,000,000	10.0%		1,506,000,000	2.1%
Motor Vehicle		681,739		1,000,000	46.7%		1,000,000	0.0%
Cigarettes		159,713,136		144,900,000	-9.3%		129,000,000	-11.0%
Alcohol		22,200,641		23,900,000	7.7%		24,400,000	2.1%
Other Taxes								
Inheritance and Gift		42,986,729		35,700,000	-17.0%		42,300,000	18.5%
Racing and Athletics		404,040		500,000	23.8%		800,000	60.0%
Realty Transfer		17,774,576		22,800,000	28.3%		23,800,000	4.4%
Total Taxes	$	3,701,252,028	$	4,221,400,000	14.1%	$	4,090,500,000	-3.1%
Departmental Receipts		402,634,288		427,000,000	6.1%		260,400,000	-39.0%
Other Miscellaneous		15,519,381		16,900,000	8.9%		24,900,000	47.3%
Lottery		301,803,082		389,600,000	29.1%		387,300,000	-0.6%
Unclaimed Property		16,269,787		16,100,000	-1.0%		13,100,000	-18.6%
Total General Revenues	**$**	**4,437,478,566**	**$**	**5,071,000,000**	**14.3%**	**$**	**4,776,200,000**	**-5.8%**

ECONOMIC FORECAST

On April 29th, the Conference heard forecasts for the national and Rhode Island economies from IHS Markit (since February 2022, a part of S&P Global). They were represented by Kathleen Navin, Economics Executive Director, and Michael Lynch, Associate Director, US Regional Economics. The conferees also received testimony from Lisa Dutilly, Chief of Research and Analysis, of the Department of Labor and Training, who provided current labor market data for Rhode Island. The Conference adopted a revised economic forecast for Rhode Island based on the information presented. The forecast is shown in the following table.

May 2022 Consensus Economic Forecast

	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027
Nominal Level								
Nonfarm Employment (Thous.)	461.5	479.8	495.3	503.4	506.8	507.8	508.6	510.3
Personal Income (Millions $)	$64,300	$67,865	$68,773	$72,817	$76,668	$80,266	$83,786	$87,417
Housing Starts (Thous.)	1.2	1.2	1.2	1.3	1.4	1.4	1.4	1.4
Annual Growth Rates								
Nonfarm Employment Growth	-8.4	4.0	3.2	1.6	0.7	0.2	0.2	0.3
Personal Income Growth	7.3	5.5	1.3	5.9	5.3	4.7	4.4	4.3
Wage and Salaries Income Growth	0.5	7.9	9.1	6.0	4.8	4.2	4.0	4.1
Dividends, Interest, and Rent Growth	-0.7	0.7	3.9	6.8	6.7	5.2	4.6	4.4
Personal Consumption Expenditures Growth	-3.8	11.5	8.2	4.3	4.2	4.2	4.2	4.5
Cosnumer Price Index (US)	1.2	4.7	6.8	2.6	2.1	1.9	1.7	2.0
Rates								
Unemployment Rate (RI)	9.2	5.7	3.5	3.5	3.8	4.1	4.3	4.4
	FY 2020	**FY 2021**	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025**	**FY 2026**	**FY 2027**
Nominal Level								
Nonfarm Employment (Thous.)	482.8	468.4	488.3	500.5	505.3	507.6	508.1	509.4
Personal Income (Millions $)	$62,276	$66,471	$67,376	$70,774	$74,814	$78,487	$82,018	$85,581
Housing Starts (Thous.)	1.3	1.3	1.1	1.2	1.3	1.4	1.4	1.4
Annual Growth Rates								
Nonfarm Employment Growth	-3.9	-3.0	4.3	2.5	1.0	0.4	0.1	0.2
Personal Income Growth	6.0	6.7	1.4	5.0	5.7	4.9	4.5	4.3
Wage and Salaries Income Growth	0.5	4.6	9.8	7.1	5.2	4.5	4.0	4.1
Dividends, Interest, and Rent Growth	0.7	-1.3	2.9	5.2	7.4	5.8	4.8	4.5
Personal Consumption Expenditures Growth	-1.4	4.3	10.7	5.8	4.1	4.3	4.2	4.4
Cosnumer Price Index (US)	1.6	2.3	6.9	4.4	2.1	2.0	1.9	1.8
Rates								
Unemployment Rate (RI)	6.7	7.4	4.4	3.4	3.7	4.0	4.3	4.4

U.S. Forecast

Testimony from Ms. Navin focused on the United States economy. She began by detailing the "hallmarks" and policy assumptions related to the updated May 2022 forecast. Ms. Navin then focused on three main areas of the economy, similar to IHS Markit's November testimony: consumer spending, the labor forecast, and inflation.

Ms. Navin presented several major themes characterizing the US forecast. These "hallmarks" included the transition of COVID, an obvious major economic factor for over two years, from a pandemic condition an endemic one. National output continues to reflect a "solid but slowing" growth trend. Inflation remains a major influence on the economy. It is estimated to decline as output growth slows, commodity prices turn down, and supply issues resolve. The forecast considers consistent rising term interest rates, the continued tightening of monetary policy by the Federal Reserve Board (reaching a policy rate of 2.0+ percent in FY2022 and 3.0+ percent in FY2023), and the resulting downward pressure on equities in 2022. Lastly, key risks considered in the forecast include persistent elevated inflation, insufficient Federal Reserve policy adjustments, the effects of the war in Ukraine, and possible new impactful variants of COVID. Other assumptions impacting the forecast include the large but waning federal stimulus, oil prices ranging from a high of $119.60/barrel in 2022 to $87.00/barrel in late 2023, other commodity prices surged in 2022, peaking and declining, the value of the US dollar peaking in 2022 and falling 2.5 percent by end the of 2023, inflation remaining high but not growing, and the Federal Reserve aggressively raising rates.

Ms. Navin then discussed trends in consumer spending. Federal stimulus, increased wealth, and pent-up demand boosted personal consumption in 2021, growing 7.9 percent. This continues in

2022 with year-over-year growth of 3.1 percent. She noted that spending is projected to moderate in late 2022 into 2023 as the effects of the stimulus wane. Real disposable income declines by 4.4 percent year-over-year in 2022. She further indicated that spending would continue to transition from an emphasis on goods back towards services as COVID restrictions cease.

Ms. Navin also discussed factors related to housing. She noted that during the pandemic, record low mortgage rates and stimulus cash helped fuel a housing "boomlet". With current rates exceeding 5.0 percent, Navin expects demand to cool and construction to slow down (as shown by the current decline in new and existing home sales).

Ms. Navin's discussion of the national labor market noted that although the unemployment rate is 3.6 percent much of this is due to a diminished labor force as, overall employment is still 1.6 million jobs below the pre-pandemic peak. She noted several factors contributing to downward pressure on the labor force participation rate including slow overall growth in population, and in particular the near zero growth in immigration. Another factor unique to the pandemic downturn is the loss of 800,000 multiple job holders. This is significant because each position a person holds is counted as a distinct job in the national and state payroll data. Ms. Navin also emphasized the role that mismatches continue to play on employment. The pandemic created huge swings in consumer spending that led to higher demand for manufacturing workers, while job losses were disproportionately concentrated in leisure and hospitality sectors, resulting in a skills mismatch between available workers and jobs. Further complicating employment has been the geographic mismatch of job losses and worker demand.

The final topic covered by Ms. Navin was inflation. The forecast anticipates the recent surge in core inflation to ease off of its 4.8 percent peak in 2022 to 3.0 percent in 2023 and 2.1 percent in 2024becausecurrent inflation conditions are not the result of a globally sustained excess aggregate demand over aggregate supply. A major inflationary contributor has been persistent from primarily COVID-related supply chain interruptions that Ms. Navin suggests will resolve over the next 12 months as demand slackens.

Rhode Island Forecast

Mr. Michael Lynch gave the testimony on the Rhode Island economy, focused mainly on the state employment picture. He noted that non-farm payrolls grew by 3,700 jobs in 2022 through March and the state's average annualized monthly growth of 3.1 percent, 4th fastest in New England. The state's unemployment rate of 3.4 percent in March was down from its 18.4 percent pandemic peak, and is slightly lower than its pre-pandemic levels of 3.6 percent (February 2020). The largest gains have been seen in the hardest-hit sectors of accommodation and food services, healthcare, and retail trade. Mr. Lynch also discussed the impact on employment data of the benchmark revision process conducted each March by the DLT and the US Bureau of Labor Statistics. This impact is explained in greater detail as part of Ms. Dutilly's testimony described below.

The IHS Markit Rhode Island forecast projects that employment growth will proceed at a steady, yet decelerating pace over time as the recovery continues. Quarterly annualized gains over this period are estimated to be 1.6 percent, with nearly 15,700 jobs gained by 2024. The forecast assumes the unemployment rate will continue to fall an additional 0.5 percent over the next two quarters before rising slowly to 3.7 percent by 2024. Job gains will again be driven by industries hard hit by the pandemic. Other sectors that are expected to see gains are administrative support services and professional, scientific, and technical services. Employment is expected to surpass the pre-COVID peak in early FY 2024.

Mr. Lynch discussed other aspects of the state's economy. Personal income in the state saw large boosts due to federal stimulus in the second quarter of CY 2020 and first quarter of CY 2021, and the negative growth rates in the forecast are due to the end of these transfer payments. Rhode Island's population is expected to grow by only 0.25 percent from 2022 through 2027. The state was negatively impacted in 2020 and 2021 by a plunge in migration due to the pandemic; however, in 2021 the state experienced a net positive domestic migration flow for the first time since the early 2000s. This is believed to be temporary and is forecasted to reverse in 2022 and beyond. House price appreciation has been rapidly growing in CY 2021, although new housing starts have lagged and are just starting to tick up. Consumer price index data for March 2022 shows a year-over-year increase in New England of 7.4 percent, the lowest region in the country except for the Middle Atlantic.

Mr. Lynch and Ms. Navin also provided several economic scenarios as possible alternatives to their base forecast. An optimistic scenario, characterized by a quicker recovery would see a GDP grow by 4.0 percent over 2022, oil prices $5 less per barrel than the baseline forecast, and unemployment falling to 3.1 percent in 2022. The pessimistic scenario, predicated on the assumption that the war in the Ukraine intensifies, is characterized by a weaker recovery (but not a recession), GDP grows by only 2.1 percent, oil prices increase to $129 per barrel, and personal consumption expenditures (PCE) fall at 0.8 percent annual rate. Each of these scenarios were presented as having a 25.0 percent chance of materializing.

A third scenario was provided that took into account a mild recession. This scenario was characterized by an intense and persistent war in the Ukraine, oil prices going above $155 per barrel, businesses scaling back on investments, consumer spending weakening, and unemployment spiking to 7.6 percent nationally. The risk of this third scenario occurring was not provided; however, it is part of the pessimistic scenario risk profile. Rhode Island's non-farm employment would drop by 2.7 percent in FY2023 as compared to baseline, PCE would drop 5.5 percent, real gross state product would drop by 3.4 percent, and unemployment would increase by 1.7 percent above the baseline forecast.

Rhode Island Department of Labor and Training
Lisa Dutilly, Chief of Research and Analysis, of the Department of Labor and Training (DLT) discussed the impact of the department's annual benchmark revision process on Rhode Island' s labor force and job count estimates. The process, done in conjunction with the U.S. Bureau of Labor Statistics (BLS), uses actual validated data to revise previously estimated figures. Labor force data was revised back to January 2017. Seasonally-adjusted job counts were revised for January 2017 through December 2021.

Ms. Dutilly explained that the revision resulted in an adjusted state unemployment rate in 2021of 4.5 percent, down 0.3 percent from the original December 2021 figure. Year-over-year, December's rate was down -2.2 percent from the revised December 2020 rate of 6.7 percent. The April 2020 unemployment rate was revised up to 18.4 percent, the highest unemployment rate during the pandemic related shut-down and the highest rate on record. The number of unemployed Rhode Islanders in 2021 was revised to 25,700, 1,000 less than the previously estimate. Year-over-year the number of unemployed RI residents declined 12,300 from the revised December 2020 estimate (16,100). There were 543,900 employed RI residents, 18,400 more than the previous December 2021 estimate. The seasonally-adjusted job count was revised up by an average of 5,700 jobs or 1.2 percent. Employment was revised up in 11 sectors, down in 3, and remained unchanged in one.

Ms. Dutilly discussed the trajectory of the pandemic recession and recovery. She indicated that that Rhode Island had regained 92,000 jobs, 85.1 percent of the total lost during the pandemic, with nearly 56.0 percent of those job gains occurring in the sectors that were most negatively impacted by the social distancing orders. She noted that low-wage industries were hit especially hard by COVID-19 and accounted for 53.0 percent of the jobs lost despite only making up 26.0 percent of total jobs in the state. Low- and mid-wage industries have fared about the same during the recovery, recovering 74.6 and 75.5 percent of jobs lost respectively. High-wage industries fared better, regaining all of the 14,100 jobs lost and adding 700 above the February 2020 level.

Ms. Dutilly compared the Rhode Island unemployment picture with other states. The March unemployment rate of 3.4 percent was lower than the US rate of 3.6 percent and was 22nd lowest in the nation where unemployment rates ranged from a high of 5.3 percent in New Mexico to a low of 2.0 percent in Nebraska and Utah. Connecticut (4.6 percent) had the highest rate in New England followed by Massachusetts (4.6 percent), and Maine (3.6 percent).

Ms. Dutilly also discussed the state's labor force. The Rhode Island labor force totaled 568,900 in March 2022. The month prior to the pandemic (February 2020) the labor force was 571,800. It had dropped to 546,100 by April 2020.She also indicated that 5.6 percent of employed Rhode Islanders sixteen and older held more than one job in 2021, a 0.4 percent increase over 2020, and equal to 2019.

REVENUES

Taxes
Revenues from taxes in FY 2022 are estimated to increase 14.1 percent over the prior year. Total estimated tax revenues for FY 2022 of $4,221.4 million increased by $375.6 million, or 9.8 percent, above the November 2021 estimate of $3,845.8 million. FY 2023 total estimated taxes are $4,090.5 million, which is $173.3 million, or 4.4 percent, above the adopted November 2021 estimate.

Personal Income Tax
The personal income tax estimates of $1,940.8 million for FY 2022 and $1,827.1 million for FY 2023 represent annual growth rates of 20.1 percent and -5.9 percent, respectively. The FY 2022 revised estimate is $284.2 million more than previously estimated. The FY 2023 estimate is $123.0 million above the November estimate and $113.7 million below the revised FY 2022 estimate. Strong April 2022 tax collections account for much of the upward revisions to FY 2022, and the expectation that these will not repeat caused negative growth in FY 2023. The estimates for personal income tax factor in the state's elective pass-through entity tax treatment, which was enacted in the FY 2020 budget. The estimates assume $180.0 million of pass-through entity payments are collected in FY 2022 and $140.0 million in FY 2023.

Business Taxes
The conferees estimated total business taxes of $576.8 million in FY 2022 and $536.1 million in FY 2023. The adopted FY 2022 estimate represents an increase of 15.2 percent above FY 2021 collections. The FY 2023 estimate is 7.1 percent less than the FY 2022 revised estimate. The estimates for FY 2022 and FY 2023 are $58.4 million and $25.6 million more than assumed in November, respectively.

Sales and Use Taxes
Sales tax, the bulk of the consumption taxes, is estimated at $1,475.0 million for FY 2022 and $1,506.0 million for FY 2023. The FY 2022 estimate increased by $43.0 million from the November consensus and FY 2023 is up $44.0 million. The FY 2023 estimate is $31.0 million more than the revised FY 2022 consensus estimate, an increase of 2.1 percent.

Excise Taxes Other Than Sales and Use Taxes
The conferees estimated $169.8 million for revised FY 2022 and $154.4 million for FY 2023 revenue from excise taxes other than sales and use taxes. These taxes include motor vehicle license and registration fees, cigarettes taxes, and alcohol taxes. The FY 2022 revised estimate is $12.8 million, or 7.0 percent, below the prior year, and $8.2 million less than the November estimate. The total FY 2023 estimate decreases by $15.4 million, or 9.1 percent, from the revised estimate for FY 2022.

The negative growth rate in FY 2022 and further negative growth in FY 2023 of 2.7 percent reflects the long-term decline in cigarette consumption, and also factors in some impact of a planned change to federal tobacco product standards by the U.S. Food and Drug Administration (FDA) that would prohibit menthol cigarettes and flavored cigars. In April 2022, the FDA announced the proposed new rule and the schedule for public comment, which will run from May 4 through July 5, 2022. The conferees assumed this would begin to cause some reduction in both cigarette and other tobacco product sales during FY 2023.

Other Taxes
The inheritance and gift, racing and athletics, and realty transfer taxes are estimated to produce $59.0 million in FY 2022 and $66.9 million in FY 2023. The FY 2022 revised estimate is $2.2 million less than the previous year. The FY 2023 estimate for total other taxes is $7.9 million more than the FY 2022 revised estimate.

Other Sources
Other sources of revenue include transfers to the general fund from unclaimed property and other miscellaneous sources. These are estimated to produce $33.0 million in FY 2022 and $38.0 million in FY 2023. The FY 2023 value includes the first $13.5 million of a two-year payment related to the long term lottery contract executed this spring and therefore excluded from the November estimate. Other sources also include departmental receipts and lottery revenues, described further below.

Departmental Receipts
The conferees adopted estimates of $427.0 million for FY 2022 and $260.4 million for FY 2023 from licenses and fees, fines and penalties, sales and services, and miscellaneous departmental

receipts that are deposited as general revenues. The FY 2022 revised estimate is $24.4 million greater than the previous year.

The FY 2023 estimate is $166.6 million less than the revised FY 2022 estimate, primarily due to the end of the hospital licensing fee, which is estimated to produce $170.2 million in FY 2022. This fee is renewed on a year-to-year basis and has been extended each year since its inception. The estimators, however, must estimate revenues consistent with current law under which no fee is yet authorized for FY 2023. Including the hospital licensing fee, FY 2023 departmental revenues are projected to be $3.6 million above the revised FY 2022 estimate.

Lottery Transfer

The lottery transfer is estimated to produce general revenue of $389.6 million in FY 2022, with $289.1 million generated from the video lottery terminals installed at Bally's casinos in Lincoln and Tiverton, $66.5 million derived from combined games (which includes PowerBall, Mega Millions, scratch tickets, and Keno) $13.1 million in net revenues received from the table games, and $20.9 million from sports betting. The FY 2022 revised estimate is $87.8 million above the FY 2021 transfer due to the resumption of normal activity at the state's casinos for the fiscal year. The FY 2022 and FY 2023 estimates include the impact of sports betting in Connecticut, which began in October 2021. According to a study commissioned by the Department of Revenue (DOR), Connecticut sports betting is expected to negatively impact on-site sports betting most acutely, especially at Twin River Lincoln.

The estimated lottery transfer is $387.3 million for FY 2023, with $285.2 million derived from video lottery terminals, $68.0 million from combined games, $13.4 million from the table games, and $20.7 million from sports betting. The FY 2023 lottery transfer is projected to be $2.3 million less than the revised FY 2022 estimate. The consensus estimates utilized growth rates projected in the DOR gaming study.

May 2022 CRE	FY2022 Nov	FY2022 May	Change	FY2023 Nov	FY2023 May	Change
Personal Income Tax	1,656,600,000	1,940,800,000	284,200,000	1,704,100,000	1,827,100,000	123,000,000
General Business Taxes						
Business Corporations	209,900,000	255,100,000	45,200,000	203,300,000	214,900,000	11,600,000
Public Utilities Gross	94,300,000	89,400,000	(4,900,000)	94,600,000	90,900,000	(3,700,000)
Financial Institutions	35,700,000	35,700,000	-	31,100,000	31,100,000	
Insurance Companies	137,500,000	155,600,000	18,100,000	139,400,000	157,000,000	17,600,000
Bank Deposits	3,800,000	4,200,000	400,000	3,800,000	4,200,000	400,000
Health Care Provider	37,200,000	36,800,000	(400,000)	38,300,000	38,000,000	(300,000)
Sales and Use Taxes						
Sales and Use	1,432,000,000	1,475,000,000	43,000,000	1,462,000,000	1,506,000,000	44,000,000
Motor Vehicle	1,000,000	1,000,000	-	1,000,000	1,000,000	
Cigarettes	153,800,000	144,900,000	(8,900,000)	148,500,000	129,000,000	(19,500,000)
Alcohol	23,200,000	23,900,000	700,000	23,700,000	24,400,000	700,000
Other Taxes						
Inheritance and Gift	39,800,000	35,700,000	(4,100,000)	45,200,000	42,300,000	(2,900,000)
Racing and Athletics	500,000	500,000	-	800,000	800,000	
Realty Transfer	20,500,000	22,800,000	2,300,000	21,400,000	23,800,000	2,400,000
Total Taxes	*3,845,800,000*	*4,221,400,000*	375,600,000	*3,917,200,000*	*4,090,500,000*	173,300,000
Departmental Receipts	419,200,000	427,000,000	7,800,000	252,400,000	260,400,000	8,000,000
Other Miscellaneous	11,300,000	16,900,000	5,600,000	10,700,000	24,900,000	14,200,000
Lottery	393,300,000	389,600,000	(3,700,000)	391,100,000	387,300,000	(3,800,000)
Unclaimed Property	14,700,000	16,100,000	1,400,000	11,800,000	13,100,000	1,300,000
Total General Revenues	**4,684,300,000**	**5,071,000,000**	**386,700,000**	**4,583,200,000**	**4,776,200,000**	**193,000,000**

NEXT MEETING

The next required meeting of the conference is November 2022.

cc: The Honorable Ryan W. Pearson, Chairman
Senate Finance Committee

The Honorable Marvin L. Abney, Chairman
House Finance Committee